NOVA SCOTIA
GAMING
CORPORATION

ANNUAL REPORT 2003-04

PREPARED FOR *Today*. POISED FOR *Tomorrow*.

Corporate Profile

The Nova Scotia Gaming Corporation (NSGC) is a Crown corporation governed by the provincial *Gaming Control Act*. It is responsible for ticket lottery, video lottery and casinos. Day-to-day operations of these businesses are carried out by NSGC's operators – Casino Nova Scotia and the Atlantic Lottery Corporation.

Board of Directors

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Message from the President & CEO

As I reflect on 2003-04, I am struck by a sense of accomplishment. Operationally, we have achieved some notable successes, especially in the area of modernizing computer infrastructure and increasing the entertainment value to consumers. We also furthered our responsible gaming efforts through a purposeful, strategic approach.

I am also inspired by a sense of impending change. There's no question that 2004-05 will be focused on developing a comprehensive gaming sector strategy that will guide this important industry into the future. It's important to realize that change will not be visible overnight. However, it is imminent because the gaming sector as it is currently conducted is not sustainable and does not meet public expectations relating to changing consumer preferences and social responsibility. In short, the status quo is no longer an option.

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To that end, much of my time in 2003-04, and that of other NSGC staff, was spent on "setting the stage" for more thoughtful growth. By that I don't just mean revenue growth. I am also referring to the evolution of the gaming industry in a way that balances economic sustainability and social responsibility.

This "setting the stage" was done in conjunction with many others holding an interest in Nova Scotia's gaming sector, including the operators, policy officials for the prevention and treatment programs, the regulator, and our very important stakeholder – the Nova Scotia Government.

During this collaborative process, three things stood out as defining attributes of the gaming sector.

The first is that the gaming sector is one that readily learns from others. There is no pretense that there is a best way of doing things or that change is bad. This extends beyond Nova Scotia's border to the gaming industry internationally. Several of NSGC's employees, including myself, have both formally and informally shared best practices with other Canadian provinces and, indeed, with jurisdictions outside of Canada's borders, including such countries as Australia and the United States. There is no hesitancy to share what we've learned or to glean valuable insight from others.

Secondly, within our borders, there is a commitment to offering the gaming model that best suits its residents. There is a very real recognition within this province's gaming sector that we are accountable to almost one million Nova Scotians, and, therefore, should be held to a standard of care that's reflective of this responsibility.

The third attribute encountered was that we all held a similar definition of success with respect to the gaming sector. Collectively, we agreed that the true measure of success is that we are being responsive to the needs, expectations and values of our shareholder. It means providing fair, secure and entertaining products. It means keeping the economic benefits in our province so they can be used for programs and services that touch all Nova Scotians. And it means incorporating the concept of social responsibility into all aspects of gaming.

What was the result of this process of collaborative discussions and idea sharing? So far, it's a framework that will serve as the agent for change. Our parameters are clear and our objectives are well mapped out.

The future of gaming will be one that fully integrates social responsibility, economic sustainability and accountability. My resolve to achieve significant results over the next three to five years in bringing a greater balance to the gaming sector is strong. NSGC can't do this alone, but it doesn't have to. The willingness and support from others in the gaming sector has been outstanding, as has the strategic guidance of NSGC's Board of Directors. Their leadership and progressive thinking has, without a doubt, been instrumental in demonstrating the need for a better balance.

In the end, it will be a collective effort and it will be one that delivers results.

Marie T. Mullally, CA
President & Chief Executive Officer
Nova Scotia Gaming Corporation

"I am also inspired by a sense of impending change. There's no question that 2004-05 will be focused on developing a comprehensive gaming sector strategy that will guide this important industry into the future."

In 1664, a new invention – the barometer – forever changed the ability to predict the seemingly unpredictable weather. The barometer became a key instrument in helping people respond to changes in the environment.

The Nova Scotia Gaming Corporation must also be able to respond to important changes in the gaming environment. As a result, NSGC has made significant innovations, improvements and refinements.

Today, we are a dynamic organization prepared and ready for the future.

Moving Dynamically

NSGC continues to make significant product and system investments and operational adjustments to deliver better gaming products more effectively to our players.

In 2003-04, a number of initiatives that improved business operations and further integrated responsible gaming into these operations were successfully completed.

In the ticket lottery business line, changes have been made to the central gaming system, making it easier for retailers to manage their lottery business. The change has truly modernized the operations. As a result, there will be significant improvements to retailer security, inventory control and cash management. As part of the training around the new system, ticket lottery retailers participated in responsible gaming awareness sessions to help them learn more about problem gambling, available resources and how they and their staff can help.

On the other side of the lottery counter, players enjoyed old favourites and others tried some of the new games. And there were many to choose from. *Instant Millionaire*™ offered the chance to become a millionaire instantly and included the added bonus of possibly becoming a millionaire through a special draw. Several themed tickets were also introduced, including some based on the popular games *The Price is Right*™, *Monopoly*™ and *Twister*™. In the video lottery line, two new games – *Bullfroggin*™ and *Enchanted Unicorn*® – were popular additions and resonated well with players.

There were also some exciting changes made to the national lottery tickets. LOTTO SUPER 7 awarded its highest-ever single jackpot of $30 million and there were a number of large jackpots throughout the year available to be won, due in part to a strategy that guaranteed the quick climbing of the top prize. The Interprovincial Lottery Corporation also announced upcoming changes to LOTTO 6/49 that will mean bigger jackpots and more chances to win. There was also a new Canadian Scratch n' Win ticket launched – Extravaganza – that offered 15 prizes of $1 million and many other valuable awards.

Patrons continued to receive high quality entertainment at Casino Nova Scotia, which welcomed more than two million visitors in 2003-04. In Halifax, the Schooner Room hosted such acts as Davy Jones, Eddie Money and Tom Cochrane and local entertainment was also showcased in the Harbourfront Lounge, located just off of the gaming floor. There was also a giant summer promotion at both the Sydney and Halifax casinos that entailed daily and nightly games and prizes.

One of the most recognizable changes this year at the Halifax Casino was the closure of the high-end Bacchus restaurant in preparation for the opening of a specially-themed seafood/steakhouse eatery called the Governor's Grill. The new restaurant has a definite Nova Scotia flair and will entertain guests with excellent food, served by enthusiastic staff garbed in traditional costume. The planning for the new design and menu was conducted from January to March, with the new restaurant opening its doors in June 2004.

In years past, the information provided by the barometer was often essential. Understandably, proper use of this information was a great responsibility.

Today, the responsible use of information is no less important. As a developing industry, gaming needs to gather and use information prudently.

This sense of responsibility is taken seriously at the Nova Scotia Gaming Corporation. We consider social responsibility more than a goal. It's a mandate.

Moving Responsibly

NSGC understands that economic success and social consideration are interdependent. It is not possible to have one without the other. In fact, NSGC considers its obligation to be socially responsible equal with its mandate to provide economic benefits to Nova Scotians.

In 2003-04, there were significant efforts spent on information exchange and extending NSGC's leadership position within Canada regarding responsible gaming initiatives.

NSGC's President & CEO was named to the Board of Directors of the Responsible Gambling Council (Canada), an organization whose purpose is to offer education and awareness programs aimed at promoting responsible gambling.

NSGC's Responsible Gaming Manager became a member of the steering committee for the Canadian Partnership of Responsible Gambling, a national partnership being set up to further the prevention of problem gambling.

In June, Dr. Mark Dickerson, a renowned researcher from the University of Sydney in Australia, visited Nova Scotia and, during the course of several discussions, confirmed that NSGC is on the right track in its responsible gaming efforts and that the refinement of its vision and strategic direction should continue to evolve as more is learned about this important part of its operations.

During this year's Responsible Gaming Awareness Week, held in Nova Scotia from October 19-25, there were displays set up in communities across the province to provide information about what it means to use gaming products responsibly. Over 600 people visited the displays and actively discussed common gaming myths and information around the odds of winning. This community outreach was in addition to several sessions held for gaming sector employees around the important issue of responsible gaming and problem gambling.

Lastly, a significant operational change that provided value to Nova Scotians was the integration of non-smoking laws into the operations at the province's two casinos. In July, the Sydney Casino went completely smoke-free in accordance with the municipal bylaws. Previously it had been 75% smoke-free. And, in August, the Halifax Casino confined smoking to 15% of its gaming area, meaning a true choice for patrons when they visit the facility.

Community Support

There are many worthy causes that play an important role in Nova Scotia communities. The employees of NSGC and its operators take pride in giving back to their communities and have donated their time to such important causes as the United Way, IWK Health Centre, the Angel Tree Campaign and the Cancer Society. They have contributed over $65,000 and have provided many hours of in-kind assistance. There were also corporate financial contributions to many non-profit organizations and community events, totaling more than $350,000. The following is a partial list of community events sponsored by NSGC operators:

- *2003 Nova Scotia PGI Golf Tournament for Literacy*
- *Alcare Place (Marguerite Centre)*
- *Big Brothers/Big Sisters*
- *Cape Breton Screaming Eagles*
- *Christmas Daddies*
- *Downtown Halifax Business Commission*
- *Green Space Cape Breton*
- *Halifax Comedy Festival*
- *Halifax International Buskerfest*
- *Hotel Association of Nova Scotia*
- *Juvenile Diabetes Walk for the Cure*
- *Metro Food Bank*
- *New Glasgow Music Jubilee*
- *Rock the Dock (Sydney)*
- *Shakespeare by the Sea*
- *Tourism Industry Association of Nova Scotia*
- *Vince Ryan Memorial Tournament*

For centuries, the captains of ships have utilized barometers to help make much more effective decisions and chart the proper course.

The Nova Scotia Gaming Corporation also believes in the strength of leadership.

In today's business environment, only strong leaders will be able to chart a course in the gaming sector so that it will remain economically viable, socially responsible and accountable for many tomorrows to come.

Moving Effectively

Gaming is an important industry in Nova Scotia. More than 1,100 jobs were provided through NSGC, the Atlantic Lottery Corporation and Casino Nova Scotia. Over $52 million was generated in the form of retailer commissions, which is money directly earned by more than 1,800 primarily small businesses throughout communities in Nova Scotia. And $175 million was paid to the Province and used to fund government programs and services used by all Nova Scotians such as healthcare, education and infrastructure.

Given its relevancy, the sector needs strong leadership to chart its course and to ensure that it remains economically sustainable, socially responsible and accountable into the future.

In September, work began on building the parameters for the formation of a comprehensive gaming sector strategy for Nova Scotia. A multi-disciplinary working group was struck, which was comprised of several senior people responsible for different aspects of the gaming sector, including such areas as operations, prevention, treatment, regulation and education.

The result was a comprehensive guiding framework, centered on having a sector that is economically sustainable, socially responsible, accountable and consistent with values of Nova Scotians. Government has endorsed this philosophy, and public input and stakeholder consultations will take place in 2004, with a complete strategy targeted for early 2005.

NSGC is ultimately accountable, through its shareholder, to the people of Nova Scotia. The obligation to employ solid business practices and deliver in accordance with existing policies and regulations is taken very seriously.

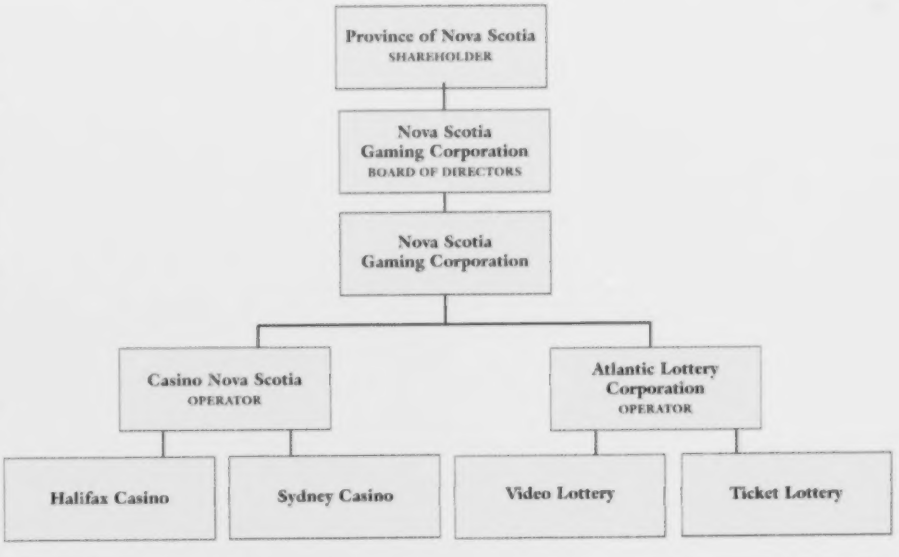
To that end, an important change was integrated within NSGC's operations in response to federal legislation introduced in January 2004 called the *Personal Information Protection and Electronic Documents Act (PIPEDA)*. The *Act* is intended to protect the privacy rights of individuals by placing restrictions on organizations' collection, use, storage and disclosure of personal information. In response, a Privacy Management Plan was prepared and subsequent policies adopted to ensure that NSGC and its operators are compliant with the *Act*.

Accountability and effectiveness are at the core of NSGC's mission. Throughout the year, it reports regularly to its shareholder and continually communicates with its operators, retail partners and responsible gaming stakeholders.

NSGC considers transparency and accountability as essential to fulfilling its mandate to manage the gaming industry for all Nova Scotians.

Throughout the year, under Section 24(1)(e) of the *Gaming Control Act*, NSGC reports any defect, abuse, illegality or criminal activity regarding gaming. During 2003-04, NSGC reported a number of incidents to the Minister Responsible for Part I of the *Gaming Control Act* and the Nova Scotia Alcohol and Gaming Authority. The majority of incidents were routine in nature, such as equipment malfunctions that did not impact on player fairness. These were centrally monitored and immediately investigated by NSGC's operators. In addition, a few product irregularities were reported during the year. These primarily involved software glitches, which required manufacturer assistance in order to rectify the problem. These were investigated, corrected and, if necessary, preventative measures were implemented.

Nova Scotia Gaming Structure



♣ ♦ ♥ ♠

Summary of Results

I ECONOMIC SUSTAINABILITY

♠ **Payment to the Province ($175.1 million)**
While the Payment to the Province was significant at $175.1 million, the number has decreased compared to $191.1 million in 2002-03. This decrease is not unique to Nova Scotia's gaming jurisdiction nor was it unexpected. The slow down of revenue growth is attributed in part to increased competition for the entertainment dollar, product maturation and a number of responsible gaming awareness initiatives.

♦ **Communities Support**
Employment – Approximately 1,100 employed directly
Commissions – Over $52 million in commissions for primarily small businesses
Sponsorships – $350,000 in sponsorships for community events
Other Contributions $750,000 – Harness Racing Industry
$100,000 – Tourism, Culture and Heritage (Cultural Division)
$ 50,000 – Sport Nova Scotia
$ 50,000 – Exhibition Federation of Nova Scotia

♥ **Products/Systems Enhancement**
- New central system for ticket lottery business line installed
- New games introduced across all business lines
- Stay n' Play Program – cross promotion between casino and hotel – netted 27,000 rooms in 2003-04
- New player management system for the casino introduced

II SOCIAL RESPONSIBILITY

♠ **Strategy Development**
Key strategies developed in support of NSGC's responsible gaming commitment, including: Social Responsibility Plan, Responsible Gaming Strategy and a Research Strategy.

♣ **Responsible Gaming Program Execution**
- Responsible Gaming Awareness Week
- Enhancements to Responsible Gaming Features on VLTs
- Ticket Lottery Retailer Responsible Gaming Program

♦ **Problem Gambling Contribution**
$1.0 million – Office of Health Promotion
$0.9 million – Nova Scotia Gaming Foundation
$1.2 million – Corporate Responsible Gaming Funding

III ACCOUNTABILITY

♥ **Regulatory Compliance**
No regulatory non-compliance issues were reported in 2003-04. All other incidents were reported to the regulator as per the *Gaming Control Act*.

♠ **Risk Management**
As per NSGC's risk management policy, strategic and operational risks were assessed, managed and evaluated regularly. A risk management report was provided to NSGC's Board quarterly.

♣ **Shareholder and Stakeholder Support**
- Quarterly and Annual Reports to shareholder
- Update to the Minister responsible on strategic / operational matters
- Quarterly reporting meetings with operators
- Regular meetings / discussions with stakeholder groups

Management Responsibilities for Financial Reporting

These financial statements are the responsibility of the management of the Nova Scotia Gaming Corporation. They have been approved by its Board of Directors.

Management has prepared the financial statements in accordance with generally accepted accounting principles in Canada. The financial information contained in the Annual Report is consistent with the data presented in the financial statements.

The gaming activities of the Nova Scotia Gaming Corporation are undertaken by operators acting on its behalf. These gaming activities are audited by independent auditors. The Corporation relies on the audit opinions of these independent auditors. The responsibility of the Auditor General of Nova Scotia is to express an independent opinion on whether the financial statements of the Nova Scotia Gaming Corporation are stated fairly, in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

The Nova Scotia Gaming Corporation maintains books of accounts and systems of financial and management control, which provide reasonable assurance that accurate financial information is available, that assets are protected, and that resources are managed efficiently.

The Board of Directors oversees audit activities through its audit committee. The committee reviews matters related to accounting, auditing and internal control systems, and the financial statements and audit reports of the auditors of the Corporation and its operators.

Marie T. Mullally, CA
President and
Chief Executive Officer

Robert MacKinnon, CA
Director,
Corporate Services

Auditor's Report

NOVA SCOTIA
Office of the Auditor General

To the Members of the Legislative Assembly of Nova Scotia; and
To the Minister of Finance

I have audited the balance sheet of the Nova Scotia Gaming Corporation as at March 31, 2004, the statement of income and payment to the Province, the statement of retained earnings and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

E. Roy Salmon, FCA
Auditor General
Halifax, Nova Scotia
May 26, 2004

Balance Sheet

As at March 31, 2004 (in thousands)

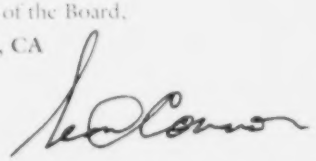
ASSETS	2004	2003
Current		
Cash and short-term investments *(Note 3)*	$ 14,770	$ 19,042
Cash – restricted *(Note 2)*	5,113	6,704
Inventory, at cost	2,135	2,571
Prepaids	1,285	404
	23,303	28,721
Long-term		
Cash – Casino Capital Replacement Reserve *(Notes 3 and 9)*	5,287	5,746
Deferred charges *(Note 2)*	480	516
Investment in Atlantic Lottery Corporation Inc.	1	1
Investment in Interprovincial Lottery Corporation *(Note 6)*	1	1
Capital assets *(Note 7)*	123,142	138,092
	128,911	144,356
	$ 152,214	$ 173,077
LIABILITIES		
Current		
Accounts payable	$ 1,451	$ 2,226
Deferred lottery revenue	358	928
Liabilities for unclaimed prizes *(Note 2)*	5,113	6,704
Capital obligation – current portion *(Note 8)*	37,394	32,849
Due to operators *(Note 12)*	11,462	14,105
Due to Atlantic Gaming Equipment Limited – current portion	14,808	13,539
Due to Nova Scotia Gaming Foundation	85	74
Due to Province of Nova Scotia	23,493	18,570
	94,164	88,995
Long-term		
Due to Atlantic Gaming Equipment Limited	21,352	32,340
Capital obligation *(Note 8)*	28,116	43,561
	49,468	75,901
	143,632	164,896
EQUITY		
Casino Capital Replacement Reserve *(Note 9)*	8,582	8,181
	$ 152,214	$ 173,077

Contingencies and Commitments *(Notes 3, 5, 11 and 13)*

Approved on behalf of the Board,

C. Sean O'Connor, CA

Chair



See accompanying notes to the financial statements

Statement of Income and Payment to the Province

For the Year Ended March 31, 2004 (in thousands)

Revenue	2004	2003
Ticket lottery *(Schedule I)*	$ 206,281	$ 212,259
Video lottery *(Schedule I)*	182,909	182,104
Halifax casino *(Schedule II)*	71,886	71,633
Sydney casino *(Schedule III)*	23,491	28,253
Other *(Schedule IV)*	264	653
	484,831	494,902
Expenses		
Ticket lottery *(Schedule I)*	167,892	167,258
Video lottery *(Schedule I)*	65,020	64,178
Halifax casino *(Schedule II)*	68,304	64,959
Sydney casino *(Schedule III)*	19,692	20,624
Responsible gaming	2,883	2,248
Other *(Schedule IV)*	3,227	2,653
	327,018	321,920
Net income	157,813	172,982
Win tax	17,257	18,077
Payment to Province	**$ 175,070**	**$ 191,059**

Statement of Retained Earnings

For the Year Ended March 31, 2004 (in thousands)

	2004	2003
Retained earnings, beginning of year	$ –	$ –
Net income	157,813	172,982
Net income paid to Province	(157,813)	(172,982)
Retained earnings, end of year	$ –	$ –

See accompanying notes to the financial statements

Statement of Cash Flows

For the Year Ended March 31, 2004 (in thousands)

	2004	2003
Operating		
Net income	$ 157,813	$ 172,982
Allocation of income to Province	(157,813)	(172,982)
Depreciation and amortization	7,011	7,407
Net changes in working capital *(Note 15)*	537	10,588
	7,548	17,995
Financing		
(Decrease) increase in obligation to Atlantic Gaming Equipment Limited	(9,719)	17,033
Reduction of capital obligation	(10,900)	(13,729)
	(20,619)	3,304
Investing		
Decrease in (purchase of) capital assets, net additions	7,939	(18,727)
Increase in Casino Capital Replacement Reserve, net of cash increase	860	634
	8,799	(18,093)
Net (decrease) increase in cash and cash equivalents	**(4,272)**	**3,206**
Cash, beginning of year	**19,042**	**15,836**
Cash, end of year	**$ 14,770**	**$ 19,042**

See accompanying notes to the financial statements

Notes to the Financial Statements

For the Year Ended March 31, 2004

1) Description of Business

The Corporation was incorporated on February 15, 1995 by Chapter 4 of the Acts of 1994-95, the *Gaming Control Act*. The purpose of the Corporation is to develop, undertake, organize, conduct and manage casinos and other lottery schemes on behalf of the Province.

2) Accounting Policies

a) Basis of Presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

b) Casino Revenues

In accordance with industry practice, casino revenues are reported as the net win from gaming activities, which is the difference between amounts wagered and amounts paid as winnings. Casino revenues are reported net of accruals for anticipated amounts to be paid as winnings for progressive slot machine jackpots.

c) Ticket Lottery Revenues

In accordance with industry practice, gross ticket lottery sales are recorded before deducting sales discounts and prize expense.

d) Video Lottery Revenues

In accordance with industry practice, video lottery revenues are reported as the net revenues from video lottery activities, which is the difference between amounts wagered and amounts paid as winnings.

e) Income Guarantee

In accordance with the Operating Contract between Metropolitan Entertainment Group (Operator), the Corporation and Sheraton International Inc. (Guarantor), an income guarantee was provided to the Corporation which provided that if Total Provincial Revenue was less than $25 million in each of the four years ended July 31, 1999, then the Operator would pay to the Corporation an amount equal to the difference between Total Provincial Revenue and $25 million.

If Total Provincial Revenue exceeded $25 million in any year through to July 31, 2000, any previous guarantee payments paid by the Operator to the Corporation would be recovered to the extent Total Provincial Revenue was in excess of $25 million in such year. The Corporation records any repayments to the Operator as a reduction of net income of the Corporation *(Note 3)*.

f) Capital Assets

Capital Assets are stated at cost less accumulated amortization.

Amortization of the Corporation's head office capital assets is provided on the declining balance basis at the following annual rates:

Computer equipment	30%
Furniture and equipment	20%

Amortization of the Halifax and Sydney casino assets is recorded on a straight-line basis according to their estimated useful lives at rates between 2.5% and 20%.

Amortization of the Corporation's capital assets used in the operation of its lottery businesses is recorded on the straight-line basis according to their estimated useful lives at rates between 10% and 33%. Leasehold improvements are amortized over the remaining lease term, including one renewal period.

g) Nova Scotia Gaming Foundation Contribution

VLT retailers in Nova Scotia have agreed, under the terms of their retailer agreements with the Atlantic Lottery Corporation Inc., to contribute 1% of their VLT commission to the Nova Scotia Gaming Foundation. The Corporation has agreed to contribute an amount equal to all contributions made by the VLT retailers.

h) Deferred Charges

The deferred charges relate to payments made to site holders to remove video lottery terminals from certain sites. These costs are being amortized on a straight-line basis over five years.

Notes to the Financial Statements

For the Year Ended March 31, 2004

i) Long-term Investments

Investments in the Atlantic Lottery Corporation Inc. and the Interprovincial Lottery Corporation are recorded using the cost method of accounting for investments.

j) Unclaimed Lottery Prizes

Unclaimed prizes from regional lottery games are retained in a prize fund for one year from the announced beginning date of the draw. Prizes of national lottery games are funded directly by the Interprovincial Lottery Corporation, with the exception of prizes for certain free tickets, which are paid out of general funds as incurred.

k) Change in Accounting Policy

During the year, the Atlantic Lottery Corporation Inc. changed its method of recording prize expense for regional online draw games. Prize expense for the year ended March 31, 2004 is recorded based on the theoretical prize expense for each game. The actual expense incurred each year will vary from the estimate based on the nature of games of chance. Over the long term it is expected that the actual prize expense will approximate the theoretical expense. In previous years, the prize expense was recorded at the actual expense incurred.

This accounting change has been applied prospectively as it was deemed impractical to calculate the theoretical prize expense for all regional online draw games and due to the fact that the profits of the Atlantic Lottery Corporation Inc. are distributed annually based on the accounting policies and profit agreement in place at that time. As a result, retained earnings was not restated for the change in policy. The impact of this change in accounting policy was to increase net profit and decrease liabilities in 2004 by $1,595,000.

l) Use of Estimates

In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

3) Casino Nova Scotia

a) Operating Contract

i) Term and Structure

On May 31, 1995, the Corporation entered into an Operating Contract with Metropolitan Entertainment Group (Operator), then a partnership between ITT Sheraton Canada Ltd. (now Park Place Entertainment Scotia Limited) and Purdy's Wharf Development Limited (now East Port Properties Ltd.), to operate casinos in Halifax and Sydney for a period expiring on December 31, 2015.

ii) Payments to Operator

The Operator is entitled to certain payments from each casino, calculated with reference to the following items, which are listed in Section 4.7 of the Operating Contract:

- ♣ an amount based upon the Operator's Capital Investment in Halifax ($92.0 million total, $59.6 million outstanding) and Sydney ($23.2 million total, $3.1 million outstanding) with respect to each casino complex, to be amortized straight-line over a ten year term in the Sydney casino and a seven year term in the Halifax casino, with interest calculated monthly at 12% per annum on the total outstanding capital investment;
- ♦ an amount equal to not less than 1.5% of casino revenue before casino win taxes (20%) to fund a capital replacement reserve;
- ♥ an amount equal to 3% of casino revenue before casino win taxes (20%) in Sydney as a Base Fee and 10% of casino revenue less casino win taxes, the Base Fee and Operating Expenses as an Incentive Fee;
- ♠ an amount equal to the Operator's shortfall in any one year that income is insufficient to make payments, as described above; and,
- ♣ an amount equal to 35% of cash available for distribution in Halifax.

iii) Operating Period

Net operating income earned by the Corporation is calculated based upon the operating period defined in the Operating Contract as January 1 – December 31. Any net operating income earned by the Corporation during the period January 1 – March 31, 2004 is subject to adjustment for the results of operations in the period April 1 – December 31, 2004.

Notes to the Financial Statements

For the Year Ended March 31, 2004

b) Cash in Casino Accounts

Under the Operating Contract, the cash is managed by the Operator on behalf of the Corporation. The Corporation has included $8,586,000 (2003 - $12,577,000) in cash from the Casino Accounts on the Balance Sheet.

c) Income Guarantee

The income guarantee and clawback periods were over on July 31, 2000.

In 2002-03, the Corporation received $1,069,000 in HST savings related to the income guarantee and clawback periods, which was repaid to the Operator.

d) Casino Option Contract

Upon expiration of the Operating Contract in 2015, the Corporation has the option to purchase the Halifax and the Sydney casino complexes, including capital assets and working capital totalling $3.1 million for the price of $1.00. The Corporation also has an option to purchase each of the two casino complexes in year 10 or year 15 of the Contract. Triggering the option in either 2005 or 2010 automatically results in the termination and cancellation of the Operating Contract.

The Corporation is required to provide notice to the Operator between December 31, 2004 and March 31, 2005 if it intends to exercise the 2005 option.

e) Capital Replacement Reserve

A capital replacement reserve is intended to provide for replacement of casino capital assets. It is based on the following percentage of annual gross operating revenues of the casinos:

Halifax	1.5%
Sydney (April 1, 2003 to December 31, 2003)	1.5%
Sydney (January 1, 2004 to March 31, 2004)	4.5%

f) Recovery of HST

The Corporation received recovery of HST of $6.7 million in 2002-03, which is net of HST on the equity repayment, fees and repayment to the Operator for rebates related to the income guarantee and clawback periods.

4) Atlantic Lottery Corporation Inc.

a) Profit Distribution

In 1976, the Atlantic Lottery Corporation Inc. was set up by the four Atlantic Provinces to operate lottery and gaming activities in the region.

The Atlantic Lottery Corporation Inc. is the Corporation's exclusive agent to operate ticket lotteries and video lotteries in Nova Scotia. Each of the Corporation, Province of Newfoundland, Lotteries Commission of New Brunswick and Prince Edward Island Lotteries Commission own 25 per cent of the Atlantic Lottery Corporation Inc.

b) Agency Agreement

The Corporation entered into an Agency Agreement (the "Agreement") with the Atlantic Lottery Corporation Inc. whereby the Corporation has appointed the Atlantic Lottery Corporation Inc. to operate ticket and video lotteries in Nova Scotia as an agent of the Corporation on the terms and conditions set out in the Agreement. Under the Agreement, the Atlantic Lottery Corporation Inc. cannot make any material change relating to the conduct and management of lotteries in Nova Scotia without the approval of the Corporation. The Agreement has not yet been signed; however, it has been implemented operationally since April 1, 2000. Management does not believe that there will be any significant changes to the financial statements as a result of signing the Agreement.

The Agreement requires that the Corporation's revenues be kept in a separate account and not co-mingled with those of the other provinces. The Corporation's costs are to be deducted from its account. The Agreement clarified that assets acquired or liabilities incurred by the Atlantic Lottery Corporation Inc. exclusively for the operation of the lotteries in Nova Scotia are the Corporation's. As a result, for financial statement reporting purposes, the Corporation has included these assets and liabilities on its balance sheet, with the balance recorded as amounts due to the Atlantic Lottery Corporation Inc. or Atlantic Gaming Equipment Limited (a subsidiary of the Atlantic Lottery Corporation Inc.), as appropriate. The Corporation has

Notes to the Financial Statements

For the Year Ended March 31, 2004

b) Agency Agreement (continued)

not recorded any portion of those assets and liabilities that are shared by all Atlantic Lottery Corporation Inc. shareholders in which the Corporation has an interest, the treatment and valuation of which has not yet been determined. This includes common capital assets. The amounts due to the Atlantic Lottery Corporation Inc. and Atlantic Gaming Equipment Limited represent a portion of the Atlantic Lottery Corporation Inc.'s line of credit, which bears interest at prime less 1% on borrowings equal to funds on deposit and prime for amounts borrowed in excess of funds on deposit and bank term loans. These loans have various terms and interest rates from 4.56% to 5.64% maturing at various dates through November 2007. The line of credit is secured by a general security agreement over all assets of the Atlantic Lottery Corporation Inc., and those owned by the Corporation. The bank term loans are secured by a general security agreement over present and future assets held by the Atlantic Lottery Corporation Inc. and Atlantic Gaming Equipment Limited and an indenture of subordination from the Corporation up to the value of assets utilized directly for the benefit of Nova Scotia.

The assets and liabilities recorded by the Corporation are recorded for financial statement reporting purposes only and do not necessarily represent the values that the Corporation would take if it were to withdraw from the Atlantic Lottery Corporation Inc.

5) Special Payments and Bonus Commissions

The Corporation is obligated to make direct payments annually to three provincial government bodies as follows:

(in thousands)	**2004**	**2003**
The Department of Tourism, Culture and Heritage (in support of the NS Cultural Federations)	$ 50	$ 50
The Department of Agriculture and Fisheries (in support of the Exhibition Association of Nova Scotia)	50	50
The Office of Health Promotion (in support of Sport Nova Scotia)	100	100
	$200	$200

These payments are special funds under the *Provincial Finance Act* established by the Minister of Finance under Section 14(1) of the *Atlantic Lottery Regulations* as made under the *Gaming Control Act*.

Bonus commissions of $3,000 (2003 - $5,000) were paid during the year to ten sporting and cultural organizations.

6) Interprovincial Lottery Corporation

The Interprovincial Lottery Corporation was incorporated on August 16, 1976 under the *Canada Business Corporations Act*. The Interprovincial Lottery Corporation owns and operates nation-wide lottery games (Lotto 6/49, Super 7, Special Event – Celebration). Nova Scotia holds one of ten shares of this Corporation, and appoints one of 21 directors to the Board of Directors of the Interprovincial Lottery Corporation.

Notes to the Financial Statements

For the Year Ended March 31, 2004

7) Capital Assets

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
(in thousands)				
Automotive	$ 1,160	$ 507	$ 653	$ 745
Computer equipment	4,354	2,220	2,134	2,601
Furniture and equipment	140	76	64	71
Computer software	38	13	25	32
Retail equipment	780	217	563	217
Leaseholds	548	266	282	354
Halifax casino assets	91,952	20,392	71,560	77,083
Sydney casino assets	23,206	11,466	11,740	12,231
Casino furniture and equipment	7,389	4,094	3,295	2,435
On-line gaming terminals	10,736	6,654	4,082	6,428
Video lottery terminals	45,930	17,186	28,744	35,895
	$ 186,233	$ 63,091	$ 123,142	$ 138,092

In 2003-04, the Corporation acquired capital assets of $3.2 million (2003 - $26.8 million) financed through Atlantic Gaming Equipment Limited, $0.3 million (2003 - $0.4 million) financed by Metropolitan Entertainment Group, and $2.2 million (2003 - $1.6 million) financed by the Casino Capital Replacement Reserve.

8) Capital Obligation

The Corporation has an obligation under the Operating Contract to repay the operator of the casinos for the initial cost of the Halifax and Sydney casinos to the extent that there is adequate cash flow from the casinos to fund these obligations. The Corporation has the option to purchase these casinos. Future minimum obligations based on there being adequate cash flow are as follows:

	Halifax	Sydney	Total
(in thousands)			
2005	$ 39,038	$ 2,734	$ 41,772
2006	15,684	793	16,477
2007	14,109	–	14,109
2008	1,104	–	1,104
Net minimum obligation	69,935	3,527	73,462
Less: amount representing interest at 12%	(7,689)	(263)	(7,952)
Present value of minimum obligation	62,246	3,264	65,510
Less: amount due within one year	(34,904)	(2,490)	(37,394)
Balance of obligation	$ 27,342	$ 774	$ 28,116

9) Capital Replacement Reserve Liability

	Halifax	Sydney	Total 2004	Total 2003
(in thousands)				
Cash balance, beginning of year	$ 4,386	$ 1,360	$ 5,746	$ 5,721
Funding	1,078	502	1,580	1,499
Interest	109	29	138	137
Capital asset purchases	(1,458)	(719)	(2,177)	(1,611)
Cash balance, end of year	4,115	1,172	5,287	5,746
Add: cumulative capital asset purchases	4,520	2,869	7,389	5,211
Less: accumulated amortization	(2,438)	(1,656)	(4,094)	(2,776)
Balance, end of year	$ 6,197	$ 2,385	$ 8,582	$ 8,181

Notes to the Financial Statements

For the Year Ended March 31, 2004

10) Related Party Transactions

The Province of Nova Scotia, Nova Scotia Harness Racing Incorporated, Atlantic Gaming Equipment Limited and the Atlantic Lottery Corporation Inc. are related parties of the Corporation. Details of any transactions between these related parties are separately disclosed in the financial statements.

11) Harness Racing

The Corporation annually contributes to the Nova Scotia Harness Racing Fund amounts approved by the Minister of Finance. In March 2003, Government approved a contribution of $750,000 in 2003-04 to support the harness racing industry in Nova Scotia.

In March 2004, Government approved a $750,000 contribution in 2004-05 to support the harness racing industry in Nova Scotia.

12) Due to Operators

(in thousands)	2004	2003
Due to Atlantic Lottery Corporation Inc.	$ 498	$ 5,724
Due from lottery operations	(4,474)	(8,259)
Due to lottery operations	7,417	5,460
Due to casino operations	8,021	11,180
	$ 11,462	$ 14,105

13) Other Commitments

The Corporation is required to make annual lease payments of approximately $195,000 over the next three years.

The Corporation's share of the Atlantic Lottery Corporation Inc.'s minimum annual lease payments for the premises is approximately $1,818,000 over the next three years.

14) Pensions

All permanent employees of the Corporation are entitled to receive pension benefits under the Province of Nova Scotia *Public Service Superannuation Act*. The plan is funded by equal employee and employer contributions. The employer contributions are included in the Corporation's management expenses. The Corporation is not responsible for any unfunded liability with respect to the superannuation fund.

15) Supplemental Cash Flow Information

Net changes in working capital:

(in thousands)	2004	2003
Inventory	$ 436	$ (123)
Prepaids	(881)	(151)
Deferred charges	36	(516)
Accounts payable	(775)	1,445
Deferred lottery revenue	(370)	183
Due to operators	(2,643)	5,135
Payable to Nova Scotia Gaming Foundation	11	(2)
Due to Province of Nova Scotia	4,923	4,617
	$ 537	$ 10,588

16) Comparative Figures

Some of the comparative figures have been reclassified to conform to the financial statement presentation adopted in this fiscal year.

17) Fair Value of Financial Assets and Financial Liabilities

The fair value of the Corporation's cash and short term investments, accounts payable, deferred lottery revenue, liabilities for unclaimed prizes, due to operators, due to Atlantic Gaming Equipment Limited, due to the Nova Scotia Gaming Foundation and due to the Province of Nova Scotia approximates their carrying amounts.

It is not practicable to estimate the fair value for capital obligation as repayment can only be made to the extent there is adequate cash flow from the casinos.

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from financial instruments.

Schedule 1

NOVA SCOTIA GAMING CORPORATION
Atlantic Lottery Corporation Inc.
Ticket Lottery and Video Lottery Operating Results
For the Year Ended March 31, 2004 (in thousands)

	Ticket Lottery	Video Lottery	Total 2004	Total 2003
Ticket lottery sales	$ 206,281	$ –	$ 206,281	$ 212,259
Ticket lottery sales discounts	141	–	141	324
Prize expense	114,641	–	114,641	113,968
Net ticket lottery sales	91,499	–	91,499	97,967
Net video lottery sales	–	182,909	182,909	182,104
Total net sales	91,499	182,909	274,408	280,071
Retailer commissions	13,299	39,463	52,762	52,857
Ticket costs	5,871	386	6,257	6,645
	19,170	39,849	59,019	59,502
Gross profit	72,329	143,060	215,389	220,569
Operating expenses				
Advertising and promotion	3,158	–	3,158	3,811
Communication	188	148	336	206
Depreciation and amortization	527	129	656	901
Development and recruitment	238	163	401	691
Equipment and maintenance	882	698	1,580	1,667
General and professional services	630	243	873	947
Lease expense	4,040	10,636	14,676	11,082
Movement and storage	385	119	504	550
Occupancy cost	740	530	1,270	1,309
Other	129	50	179	299
Research and development	175	273	448	361
Retailer and player support	317	106	423	–
Salaries and benefits	7,506	4,590	12,096	11,389
Supplies	129	83	212	222
Telecommunication	2,373	248	2,621	2,627
Travel and vehicle expenses	622	366	988	1,502
Total operating expenses	22,039	18,382	40,421	37,564
Operating profit	50,290	124,678	174,968	183,005
Other income (expenses)	(249)	301	52	(460)
Profit before other distributions	50,041	124,979	175,020	182,545
HST expense	5,556	6,361	11,917	12,812
Federal contribution	876	729	1,605	1,607
Charity non-profit	35	–	35	39
Retailer bonus	5,185	–	5,185	5,160
Net profit	**$ 38,389**	**$ 117,889**	**$ 156,278**	**$ 162,927**

Schedule II

NOVA SCOTIA GAMING CORPORATION
Halifax Casino Nova Scotia
Operating Results

For the Year Ended March 31, 2004 (in thousands)

	2004	2003
Revenue		
Casino revenue	$ 64,664	$ 64,129
Beverage, food and other revenue	7,222	7,504
	71,886	71,633
Expenses		
Amortization	5,838	5,825
Capital Replacement Reserve *(Note 3)*	1,078	1,075
General administration and marketing	9,468	9,366
Harmonized Sales Tax	4,557	5,191
Recovery of HST *(Note 3)*	–	(5,631)
Interest	6,664	8,176
Other expenses including cost of beverage and food	4,256	4,548
Premise expense	2,991	3,008
Salaries and benefits	20,519	20,575
Win tax	12,933	12,826
	68,304	64,959
Net income	3,582	6,674
Win tax	12,933	12,826
Total payment to Province	$ 16,515	$ 19,500

Schedule III

NOVA SCOTIA GAMING CORPORATION
Sydney Casino Nova Scotia
Operating Results

For the Year Ended March 31, 2004 (in thousands)

	2004	2003
Revenue		
Casino revenue	$ 21,618	$ 26,255
Beverage, food and other revenue	1,873	1,998
	23,491	28,253
Expenses		
Amortization	490	658
Capital Replacement Reserve *(Note 3)*	502	424
General administration and marketing	2,512	2,405
Harmonized Sales Tax	1,286	1,794
Recovery of HST *(Note 3)*	–	(1,085)
Interest	523	801
Operator fee *(Note 3)*	1,334	1,621
Other expenses including cost of beverage and food	1,202	1,336
Premise expense	709	703
Salaries and benefits	6,810	6,716
Win tax	4,324	5,251
	19,692	20,624
Net income	**3,799**	**7,629**
Win tax	**4,324**	**5,251**
Total payment to Province	**$ 8,123**	**$ 12,880**

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Schedule IV

NOVA SCOTIA GAMING CORPORATION
Other Revenues and Expenses
For the Year Ended March 31, 2004 (in thousands)

	2004	2003
Other revenues		
Payment from New Brunswick	$ –	$ 393
Interest income	264	260
Total other revenues	264	653
Other expenses		
Special payments and bonus commissions *(Note 5)*	203	205
Nova Scotia Harness Racing Fund contribution *(Note 11)*	750	750
Management expenses		
Advertising	5	3
Amortization	27	23
Directors fees	73	52
Harmonized Sales Tax	220	103
Membership dues	11	11
Occupancy taxes	6	5
Office and miscellaneous	71	35
Office equipment	47	14
Periodicals	13	15
Postage and freight	8	8
Printing and stationery	20	12
Professional and other fees	498	73
Rent	122	120
Salaries and benefits	1,039	1,129
Telecommunications	21	16
Training	32	38
Travel	61	41
	2,274	1,698
Total other expenses	3,227	2,653
	$ (2,963)	$ (2,000)

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